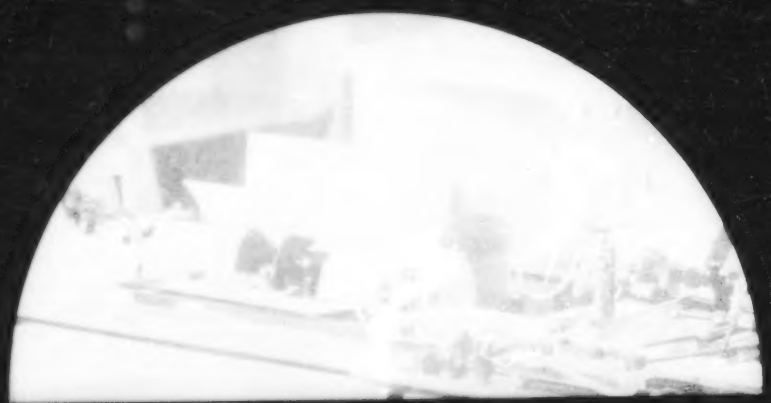
Annual Report

MMA
MAIL MANAGEMENT AGENCY

2001

Providing Communication Solutions for the Future.



Mail Management Agency
A Special Operating Agency
of Transportation &
Government Services

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MINISTER'S LETTER

MINISTER OF TRANSPORTATION
AND GOVERNMENT SERVICES

Room 203
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

July 13, 2001

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

I have the privilege of presenting the Fifth Annual Report of Mail Management Agency for the year ended March 31, 2001.

For the past 45 years, Mail Management Agency and its predecessor Postal Services Branch have been providing correspondence distribution and finishing services primarily within the provincial infrastructure, and in recent years as an Agency to the broader public sector.

Mail Management continues to seek out innovative solutions within its mandate to ensure that services are on or near the forefront of its industry. The future remains bright as the Agency strives to meet and exceed the expectations of its stakeholders.

Respectfully Submitted,

Steve Ashton
Minister Responsible for
Mail Management Agency

Manitoba

Deputy Minister of
Government Services

332 Legislative Building
Winnipeg MB R3C 0V8

Telephone: (204) 945-4414
Facsimile: (204) 945-1857

July 13, 2001

The Honourable Steve Ashton
Minister Responsible for
Mail Management Agency
Transportation and Government Services
Room 203, Legislative Building
Winnipeg MB R3C 0V8

Dear Mr. Minister:

I am pleased to submit for your consideration the Fifth Annual Report of Mail Management Agency for the year ended March 31, 2001.

Mail Management's success continues to be achieved by ensuring that customer service, productivity improvement and, employee development are at the forefront of its initiatives. Building on these foundations allows the Agency to continue to meet and exceed client expectations.

The Agency continues to face a future of significant technological change in the world communication environment. It has accepted that challenge and is moving forward with initiatives to provide the government and broader public sector with opportunities that will keep pace. Its recent history of success will directly contribute to the Agency's ability to adapt and advance.

The Advisory Board is pleased with the continued success of Mail Management and is encouraged by the commitment of its employees.

Respectfully submitted,

Gerry Berezuk
A/Deputy Minister and Chairperson of the
Mail Management Agency Advisory Board

CHIEF OPERATING OFFICER'S FOREWORD

MMA
MAIL MANAGEMENT AGENCY

200 Vaughan Street • Winnipeg MB R3C 1T5

From the Chief Operating Officer

MMA's goals were targeted toward change. A change that would position the Agency at the forefront of its business sector. A change that would enable the Agency to broaden its client base and to improve upon the products and services offered. How did we do? We had some major successes with some taking longer than expected, and some requiring the Agency to posture for the proper external-operating environment.

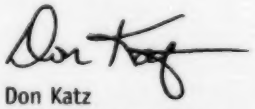
At the beginning of the year we set out to restructure our charges and the methodology for applying them to the services we provide. By the end of the year we had completed two thirds of the process, and after initial mixed reviews, both the customer and the Agency were winners. The customer saw benefits directly attributable to activities provided and the Agency obtained improved management information.

The Agency also continued its investigations with electronic Mail Management (eMM). Ultimately, it was determined that "early adopters" were not available to participate, and the project was given a different priority within the Agency. A by-product of the investigation, however, was the development of eMM digital printing. This activity was introduced in the second quarter of the year and is successfully providing services throughout the broader public sector.

The Agency remains quite positive given volume growth in the finishing line of business. Volume grew by more than 17% and contributed to sustaining volumes in other lines of business. Mail Management is also confident that eMM digital printing will enjoy considerable growth as marketing efforts for this activity escalate.

Throughout the process of change and growth our production staff has been asked to adapt as well. They have been trained to work with our computer production system and perform what were once considered administrative activities. Although a strain at first, they have been able to overcome early issues to create a new standard in our workplace.

I would like to extend my sincere appreciation to those who have contributed to the success of Mail Management Agency, including our Advisory Board Members, our staff, and our clients.



Don Katz
Chief Operating Officer

ADVISORY BOARD

The Advisory Board's role in support of the Agency is to offer advice and direction on short-term strategic planning, management, and reporting as well as on issues of concern to our clients. The Board meets quarterly to review the Agency's financial reports, and annually to review the business plan, annual report, and any planned changes to the Agency Charter.

CHAIR

Gerry Berezuk
A/Deputy Minister
Manitoba Government Services

MEMBERS

PRIVATE SECTOR REPRESENTATIVE

Raymond West
Past President
A. E. MacKenzie Co. Ltd.

PRIVATE SECTOR REPRESENTATIVE

Norm Fiske
Partner
Sill & Company

CLIENT REPRESENTATIVE

Al Macatavish
Vice President, Transmission & Distribution
Manitoba Hydro

CLIENT REPRESENTATIVE

John Hosang
Assistant Deputy Minister
Manitoba Highways and Transportation

STAFF REPRESENTATIVE

Dan Hawley
Operations
Mail Management Agency

EX-OFFCIO

Don Katz
Chief Operations Officer
Mail Management Agency

EX-OFFCIO

Tracey Danowski
A/Assistant Deputy Minister
Manitoba Government Services

AGENCY MANAGEMENT

DON KATZ
Chief Operations Officer

GREG BOWERS
Marketing/Systems

MIKE LANGENFELD
Operations Manager

TANIS WHEELER
Accounting

AGENCY PROFILE

Historical Perspective

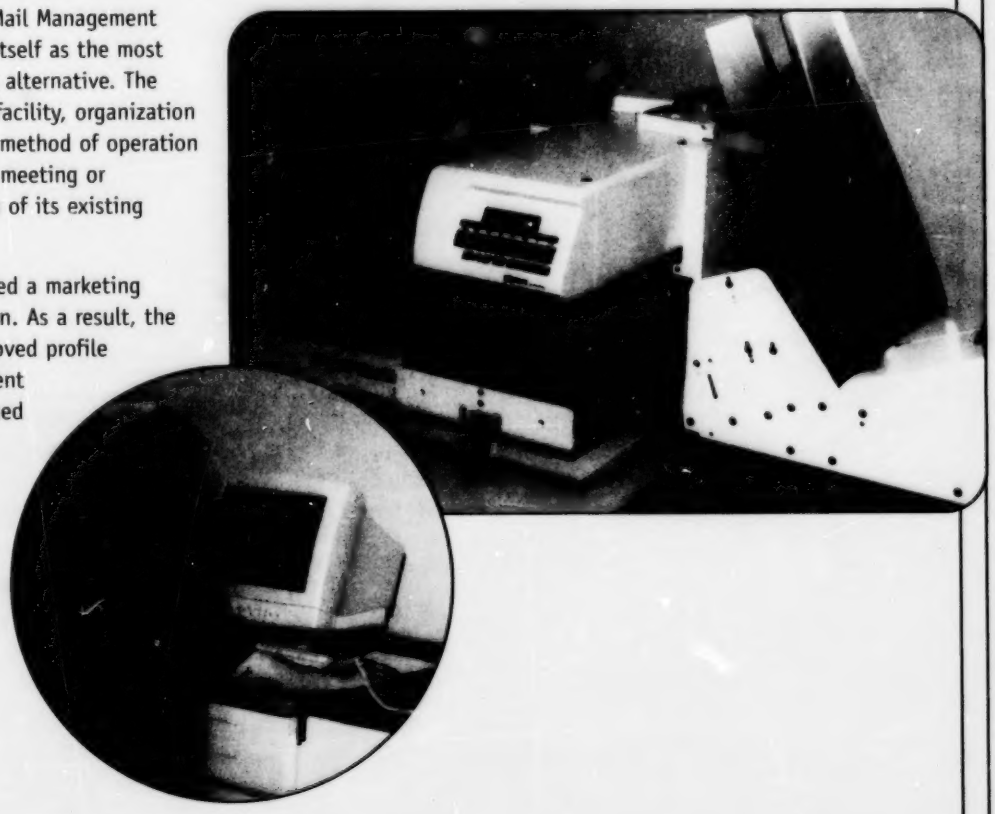
Mail Management Agency became a Special Operating Agency on April 1, 1996. Its history lies in that of the Postal Services Branch, its predecessor. The Postal Services Branch was responsible for centralized postal management within the Manitoba Government. It included co-ordinating the pickup and delivery of correspondence, distribution of interdepartmental mail, affixing the most economical postage for correspondence to the general public and allocating these costs to the originating program, evaluating Postal requirements, managing the franking privileges of members of the Legislative Assembly and negotiating and entering into contracts to reduce postage and equipment costs to Government.

Postal Service began as a Branch in 1956 and throughout the years grew from one facility to as many as twelve. During its growth it developed a mail delivery system, using government owned vehicles, that provided a high degree of reliability. As technology and alternate sources of delivery improved, use of government owned vehicles were phased out and the number of postal satellites was reduced.

In the late 1980's to early 1990's, Postal Services became more accountable and service oriented. A computerized mail management system was purchased to recover postage costs from users. Postal Services subsequently assumed responsibility for the Department of Highways postal operation and the Queen's Printer mail preparation services that included inserting and folding.

During the 1996/97 year, Mail Management Agency began to position itself as the most cost effective and efficient alternative. The Agency realigned its main facility, organization structure, systems, and its method of operation to assist it in its thrust of meeting or exceeding the expectations of its existing and future clients.

The 1997/98 year introduced a marketing position to the organization. As a result, the Agency developed an improved profile amongst its customers. Client presentations were performed and response time to customer inquiries was greatly improved.



AGENCY PROFILE

Mission

The mission of Mail Management Agency is to enable clients to expedite their products, information and correspondence through the most appropriate distribution alternative.

The following business principles and values support the mission of the Agency:

- *to create service solutions for Government that contribute to affordable program delivery and ultimately to its bottom line;*
- *to develop, through provision of superior service at reasonable cost, lasting, mutually satisfactory business relationships;*
- *to develop mutually agreeable business relationships with suppliers by ensuring all are extended access to tender documents, by paying open accounts promptly, and generally demonstrating good business ethics;*
- *to remain a good corporate citizen by complying with all the laws and regulations and by promoting measures to eliminate or minimize risks to the environment;*
- *to provide a safe working environment for all employees in compliance with ongoing Workplace Health and Safety regulations;*
- *to encourage and acknowledge special levels of employee accomplishments through recognition and rewards;*
- *to continue to train and develop employee skills and talents through career planning and educational support;*
- *to provide employees with clear objectives and direction on how they may be attained;*
- *to stress team building while recognizing individual effort within team frameworks;*
- *to encourage innovative ideas and promote creative thought;*
- *to jointly establish individual performance goals and conduct impartial appraisals on their degree of attainment; and*
- *to remain an employer of choice.*

Goals and Objectives

The long-term goal of Mail Management Agency is to become the selected distributor of products, information and correspondence. In support of this goal, management and staff of the Agency have defined the following objectives that are critical to the long-term success of the Agency:

- *to ensure that the cost of postage and mail processing, mail finishing, and interdepartmental mail are minimized and that mail is expeditiously processed in a timely manner;*
- *to consolidate all Manitoba Government existing and dispersed departmental mail operations into one corporate process which will eliminate duplication of services, staff, equipment and space usage;*
- *to develop clients other than the Province of Manitoba, e.g. Interdepartmental Mail for the City of Winnipeg, Federal Government offices in Manitoba, and Universities in the city of Winnipeg;*
- *to provide guidelines to government in the processing of all related mail products and services and to establish standards and procedures for the efficient handling of government mail; and*
- *to develop other correspondence handling service solutions which are beneficial and cost effective for the corporate entity.*

Products and Services

MMA services are expanding to encompass the broader demands associated with communications. The existing finishing, processing, interdepartmental, and contract administration components were augmented with electronic Mail Management (eMM) printing, beginning the process of transforming MMA into a one-stop shop for communication services. Providing these additional services at one location will enable MMA to more fully address their clients' current and future needs.

● **EXISTING SERVICES**

The following outlines the existing services provided by Mail Management Agency:

PROCESSING - Line of Service:

METERED	Standard and oversized letter mail processed with ink stamp impressions (metered dollar impressions) through high speed mail machines.
PERMIT	Standard and oversize letter mail that are pre-printed with indicia (Canada Post deposit account numbers), and are prepared for Canada Post with the use of a numerically controlled Statement of Mailing (SOM) document. SOMs are used for items such as Addressed Admail, Unaddressed Admail, and Remail.
XPRESSPOST CERTIFIED MAIL	Traceable numerically controlled mail envelopes that are processed with an acknowledgement receipt card that is returned to the sender upon successful completion of delivery.
REMAIL	Specially priced U.S. and International mail that is processed with a special meter impression and documented with the use of numerically controlled SOMs.
OTHER	All other mail processing services not included in the above, including courier, parcels, business reply mail, postage cheques, and proof of delivery signatures.

FINISHING - Line of Service:

ADDRESSING	High speed machine addressing of envelopes and labels. Used in conjunction with incentive mail software programs that allow the Agency to sort addresses directly to Canada Post forward sortation areas or actual letter carrier walks. In doing so, MMA garners significant postage savings for its customers.
BURSTING	High-speed machine separation of various types of continuous sheet computer forms.
FOLDING	High-speed machine folding of various types of cheques, paper documents, and government forms.
INSERTING	High speed inserting of paper document various types of cheques, paper documents, and government
MANUAL INSERTING	Grouping items of unusual type and design into containers specific to each unique project. Activities of this nature range from inserting specific matching items into envelopes or assembling convention kits that include computer diskettes, pens, pins, etc. Each of these tasks is performed manually.

INTERDEPARTMENTAL - Line of Service:

Daily pick up and delivery of items between government departments at designated locations.

The classification of service is as follows:

SMALL ENVELOPE Reusable interdepartmental envelopes, the approximate size of a standard # 10 letter mail envelope.

FLAT Large reusable interdepartmental envelopes approximately 15" x 11".

SMALL PARCEL Containers that can be up to 60 lbs. in weight and a maximum size of 11" x 8.5" x 4.5".

LARGE PARCEL Items larger than the above categories that weigh at most 60 lbs. and can be carried by the Agency's contract couriers.

CONTRACT ADMINISTRATION - Line of Service:

The tendering for, and management of the best possible courier and parcel rates for use within MMA Processing and Interdepartmental services, and by the broader public sector clients who ship directly from their own facilities.

- **NEW SERVICES**
  Based on projected demand, identified by the feasibility study and independent requests for printing services, digital printing services were introduced.

eMM PRINTING - Line of Service:

To satisfy immediate Better Systems Initiative (BSI) demands for printing services, in conjunction with consistent findings from the eMM feasibility study, MMA leased and implemented two high speed printers. The addition of print services into MMA offerings will enable its clients to bundle their communications needs and have them provided more efficiently from a single central source. The formal initiation of the printing component of the one-stop shop concept that is part of the Agency's broader electronic mail management process. The print service provide clients with "just in time" printing of electronic documents on high speed digital black and white printers that can be immediately transferred to the Finishing, Processing, and Interdepartmental divisions.

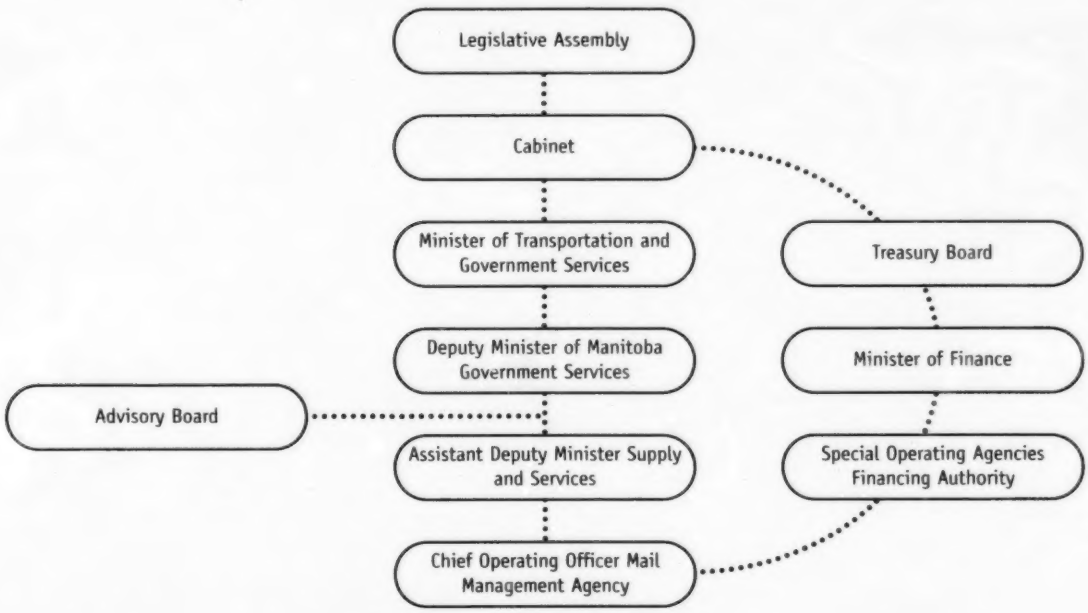
AGENCY PROFILE

Structure

Mail Management Agency is a special operating agency within the Department of Transportation and Government Services that is accountable to the Deputy Minister for operational and financial performance.

The Agency operates outside the Consolidated Fund under the Special Operating Agencies Financing Authority, which holds title to the Agency's assets, provides financing for operations, and is responsible for its liabilities.

The accompanying chart identifies Mail Management's accountability within the established structure.



PERFORMANCE REVIEW

The Agency, in its 2000/2001 Business Plan, identified certain quantitative and qualitative critical success factors that serve as targets that reflect the Agency's progress as an operating entity. The following are the targets and their results for the year ending March 31, 2001.

To attain the projected net income as set out in the 2000/2001 business plan. The net earnings were $49.1 below the projection of $112.1 due to the following:

- *The impact from the introduction of the IDM stamp program was greater than anticipated with $90.0 less revenue relative to the prior year.*
- *The direct gains in finishing and contract administration along with the net effect of processing revenue and the associated postage cost were more than offset by the impact of eMM printing and correspondence distribution shortfalls.*
- *eMM lease costs of $24.0 were incurred during the first half of the year while waiting for the primary customer to begin the process.*
- *Working capital payable balances remained much higher than projected resulting in additional interest of $22.0*

Service Quality Indicators:

The Agency continued to maintain its level of service.

MAIL PROCESSING COMPLETED DAILY

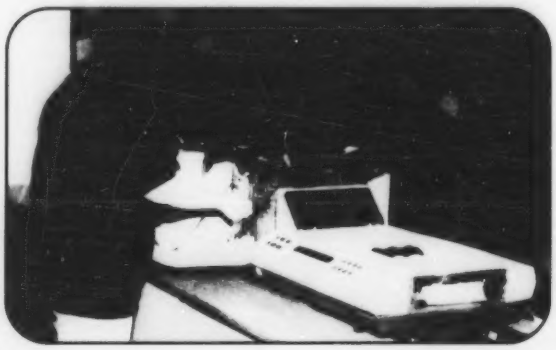
- *Achieved 99.5% of mail being processed on the day it was received*
- *Achieved rework rate of less than 1/1000th %*

MAIL FINISHING JOBS COMPLETED WITHIN EXPECTED TIME FRAME

- *Completed 99.0% of mail finishing jobs within deadlines*
- *Achieved rework rate of 1/10th %*

Contact With Major Customers

Management ranks were thinned with the Chief Operating Officer serving in an acting capacity with another organization for the first half of the year. As a result, contact was much the same as the prior year primarily through telephone and limited face to face contact. As well, the Agency continued to distribute its newsletter "Mail Facts".



PERFORMANCE REVIEW

Development of Correspondence Handling Solutions

Incentive mailing volumes remained stable although impaired by new rules and regulations established by Canada Post Corporation. Savings of $150.0 to $160.0 were maintained.

Courier contract administration client numbers increased to 690 clients.

Electronic Mail Management solutions were impeded with eMM digital printing beginning in the second half of the year and eMM correspondence distribution being put on hold until the appropriate user environment becomes established. A success rate of greater than 99.0% for project on time completion was achieved during the period that eMM was in operation.

Employee Development

Training at the Agency took a more passive role during the 2000/2001 fiscal year. Approximately 20% of the employees attended courses directly attributable to their contribution in the work place. Another thirty percent were provided training to work with upgrades instituted in the Agency billing system.

To Meet or Exceed Key Performance Indicators

Volumes (000's)

	Actual 99/00 VOLUME	Actual 00/01 VOLUME	Projected 00/01 VOLUME	Variance to 99/00 VOLUME	Variance to 99/00 %	Variance to Projected VOLUME	Variance to Projected %
Processing	10,055.9	9,823.6	9,320.0	(232.3)	(2.3)	503.6	5.4
Finishing	16,470.1	19,314.7	15,679.5	2,844.6	17.3	3,635.2	23.2
Interdepartmental	3,049.6	2,937.9	2,930.5	(111.7)	(3.7)	7.4	0.3
eMM - Printing	0.0	352.2	1,626.5	352.2	100.0	(1,274.3)	(78.3)
eMM - Corr Dist	0.0	0.0	1,184.0	0.0	0.0	(1,184.0)	(100.0)
TOTAL	29,575.6	32,428.4	30,740.5	2,852.8	9.6%	1,687.9	5.5%

Paid Full Time Equivalents (FTE'S)

	Actual 99/00 VOLUME	Actual 00/01 VOLUME	Projected 00/01 VOLUME	Variance to 99/00 VOLUME	Variance to 99/00 %	Variance to Projected VOLUME	Variance to Projected %
Processing	6.3	5.4	6.8	0.9	14.2	1.4	20.6
Finishing	6.0	6.7	4.3	(0.7)	(11.7)	(2.4)	(55.8)
Interdepartmental	7.6	6.8	7.4	0.8	10.5	0.6	8.1
eMM - Printing	0.0	0.1	1.5	(0.1)	(100.0)	1.4	93.3
Administration	4.5	4.5	4.4	0.1	2.2	(0.1)	(2.3)
TOTAL	24.5	23.5	24.4	1.0	4.1%	0.69	3.7%

Productivity per Working FTE Hour

	Actual 99/00 VOLUME	Actual 00/01 VOLUME	Projected 00/01 VOLUME	Variance to 99/00 VOLUME	Variance to 99/00 %	Variance to Projected VOLUME	Variance to Projected %
Processing	1,041	1,002	760	(39)	(3.8)	242	31.8
Finishing	1,785	1,592	2,032	(193)	(10.8)	(440)	(21.6)
Interdepartmental	264	239	220	(25)	(9.5)	19	8.6
eMM - Printing	0.0	2,700	901	2,700	100.0	1,799	199.6
TOTAL	3,090	5,533	3,554	2,443	79.1%	1,979	55.7%

PERFORMANCE REVIEW

Development of Correspondence Handling Solutions

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Interdepartmental	7.6	6.8	7.4	0.8	10.5	0.6	8.1
eMM - Printing	0.0	0.1	1.5	(0.1)	(100.0)	1.4	93.3
Administration	4.6	4.5	4.4	0.1	2.2	(0.1)	(2.3)
TOTAL	24.5	23.5	24.4	1.0	4.1%	0.69	3.7%

Productivity per Working FTE Hour

	Actual 99/00 VOLUME	Actual 00/01 VOLUME	Projected 00/01 VOLUME	Variance to 99/00 VOLUME	Variance to 99/00 %	Variance to Projected VOLUME	Variance to Projected %
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PERFORMANCE REVIEW

These targets measure three mutually exclusive items; total volume, total paid hours, and productivity per working hour. The difference between the latter categories is that paid hours include vacations, sick leave, and other leaves, whereas working hours specifically reflects hours handling product.

Processing revenue is up in relation to projections. Price increases and change in product mix (to higher yielding product) conspired to create this result. Processing volume is 5.4% greater than projected but 2.3% less than the prior year. Approximately 1 million unaddressed admail pieces distributed in the prior year are missing from this years volume, however, a good portion of that variety of one time mailing was replaced by the spin off derived from increased finishing activity. Items derived from the finishing line of business are usually the permit type of mail that require less human intervention and therefore reflect favourably in the hourly productivity statistic.

Finishing owes the vast majority of its success to the continuing unanticipated demand by Manitoba Health. Volume is 17.3% higher than the previous year and and 23.2% in excess of projections. Considerable growth can also be attributed to demand for manual finishing. Finishing hourly productivity unfortunately has been negatively impacted. Causes are the set up and start up time for an increased number of jobs with lower average volumes as well as a significant number of labour intensive manual jobs introduced into the system.

Inter department mail volumes dropped slightly by 3.7 % from the prior year but remain 0.3% above projection. Email communication has had very little impact in this line of business as volume remains well within normal fluctuations of the past five years.

eMM printing and correspondence distribution were both affected by timing and decision points. The introduction of correspondence distribution has been deferred to an more appropriate operating environment and therefore has not met any of its targets. Printing began in the third quarter with its start up of its major client. Other activities have been slow to come on stream due to computer software engineering requirements.

Highlights

	2000/2001 ($000's)	1999/2000 ($000's)
Total Revenue	6,085.0	5,792.0
Postage Expenses	4,500.0	4,315.0
Salaries & Benefits	825.0	833.0
Operating Expenses	663.0	664.0
Total Income	97.0	(20.0)
Interest	34.0	42.0
Net Income	63.0	(62.0)

Ratios

	2000/2001	1999/2000
Return on Total Revenue	1.04%	(1.07)%
Return on Assets	4.86%	(4.97)%
Return on Equity	11.7%	(13.0)%
Debt to Equity	1.41:1	1.62:1
Current Ratio	1.43:1	1.81:1

PERFORMANCE REVIEW

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Net Income	63.0	(62.0)

Ratios

	2000/2001	1999/2000
Return on Total Revenue	1.04%	(1.07)%
Return on Assets	4.86%	(4.97)%
Return on Equity	11.7%	(13.0)%
Debt to Equity	1.41:1	1.62:1
Current Ratio	1.43:1	1.81:1

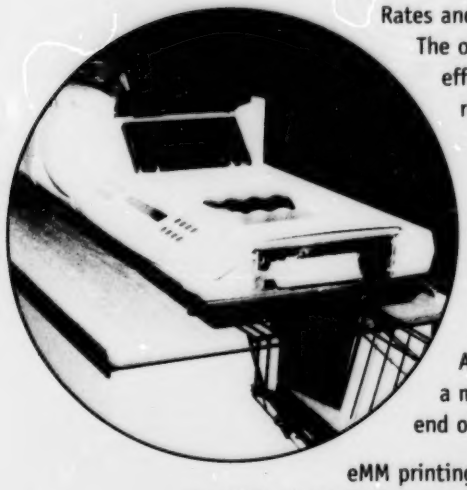
PERFORMANCE REVIEW

Overview

The Agency recorded profits of $63.0 on gross revenues of $6,085.0 for the year ended March 31, 2001. The profit is a 180 degree turn around from the prior years loss. Strong revenue from the finishing line of business, plus a slight revenue yield improvement from processing netting against an unanticipated shortfall from the inter department line of business, resulted in a small net profit.

Significant Events in 2000/2001

Mail finishing volume continued to increase over the past year thereby increasing revenue by 25% to $401.0. Spin offs from this activity helped the Agency to sustain volumes in mail processing.



Rates and pricing methodology were addressed during the 2000/2001 fiscal year. The overall impact was to be revenue neutral to the Agency and to reflect the effort expended. All lines of business were to be affected, however due to the requirement for extensive computer programming only two of three lines of business were covered.

The Agency introduced the IDM stamp program at the start of the second quarter. The reception was less than favourable because of change and unknown benefits. Results at the end of the year indicated that IDM volume remained flat while government as a whole reduced its costs by $90.0 with only one department showing an increase in overall IDM cost.

At the end of the third quarter process rates were changed to a piece rate from a markup on postage cost. The impact of this change appeared negligible at the end of the year.

eMM printing began operations in the third quarter. This was a full year after the Agency was ready to begin the process. Volumes received were lighter than anticipated but have been supplemented by ad hoc projects emanating from other departments. Print drivers, opening up the system to potential clients, were being tested at year end.

eMM correspondence distribution "proof of concept" investigation was put on hold at the first check point of the project. It was determined that, although the concept was a viable endeavour, "early adopters" were not yet ready to participate operationally or financially. The continuation of this project was given a different priority. The Agency, without the assistance of external consultants, will begin to identify opportunities through the analysis of product flowing though its facility.

PERFORMANCE REVIEW

Net Income

Mail Management's net income increased by $125.0 compared to 1999/2000. As previously stated, mail finishing was a strong contributor to profit. Costs in this area increased marginally while volumes increased significantly. A shortfall in IDM revenue was more than offset by the net increase of revenue from mail processing, contract administration, and new revenue from eMM printing. As well, decisions to defer the eMM correspondence distribution pilot reduced expenditures by $50.0.

Revenue From Operations

Mail Processing

Revenue in the mail processing segment reached $4,938.0 versus $4,674.0 in the 1999/2000 year. Processing revenue includes a full year of price increases passed on by Canada Post versus six month in the prior year. As well, product mix changed with the absence of 1 million less labour intensive, low dollar value product and the increase in labour intensive, high dollar value parcel traffic. Finally, spin offs from mail finishing added higher yielding product to the mail processing mix.

Mail Finishing

The finishing section for the second year in a row has recorded a new high in revenue, up $80.0 over the prior year. Once again the Department of Health volumes and, the effort of our marketing team to bring in new customers has the mail finishing section growing in each consecutive year.

Inter Department Mail

Revenue decreased $90.0 relative to the prior year down to $679.0. The introduction of the IDM stamp user pay system is beginning to reward clients and reflect the activity being performed. Revenue is expected to drop a further $30.0 for the 2001/2002 year as customers begin to take greater advantage of the desktop network.

PERFORMANCE REVIEW

Operating Expenses

The largest component of the Agency's operating cost remains postage at $4,500.0.

Postage expenditures increased $185.0 or 4.3% over the prior year. 2000/2001 includes the full year impact of Canada Post rate increases as well as additional costs associated with the change toward higher value product in the mix.

Labour represents the second largest expense for the Agency. A 3.0% increase was observed in 2000/2001 bringing the salaries to $744.0 before benefits. This years figure includes a full year versus a half year salary for an accounting clerk plus a half year salary for IT support less 58% of the salary belonging to the COO while away on acting status. The net impact negates the impact of the general salary increase and reflects the ability of the Agency to handle increased mail finishing volumes with fewer staff.

The cost associated with the courier increased by 4.3%. A new agreement for inter-city courier service came into effect in November 2000 increasing rates by approximately 3.75%. The Agency began to cover the cost for a rural courier picking up mail from the local post office and delivering it to the provincial building. Finally, fuel charges were being assessed as the price of fuel increased in excess of 15%.

Lease costs show the full year impact of equipment to support eMM printing as well as the retirement of equipment requiring extensive repair. The reduction of equipment and rental expense reflects the offset to some of the lease costs

Professional fees are $59.0 less than the prior year, from $199.0 to $140.0. These fees reflect costs associated with the "Proof of Concept" eMM correspondence distribution project, support for the completion of the Agencies Mail List Program, and support to update the internal billing system in order to institute rate structure changes.

RESPONSIBILITY OF FINANCIAL REPORTING

MARCH 31, 2001

200 Vaughan Street • Winnipeg MB R3C 1T5

Mail Management Agency
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba

The Agency's management is responsible for the financial statements and other financial information in the annual report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and the results of operations in accordance with generally accepted accounting principles. The financial statements have been audited by The Exchange Chartered Accountants, independent external auditors.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that the transactions are authorized, properly recorded and reported and that the assets are safeguarded.

The Advisory Board meets regularly with management to review accounting practices, financial reporting and to discuss audit results. The auditors have free and full access to this Board, and to discuss the results of their audit and their views on the adequacy of internal controls and the quality of the financial reporting.

Don Katz
Chief Operating Officer

June 19, 2001

AUDITOR'S REPORT

THE EXCHANGE

chartered accountants

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Mail Management Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2001 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2001 and the results of its operations and changes in its financial position for the year then ended, in accordance with Canadian generally accepted accounting principles.

THE EXCHANGE

chartered accountants

Winnipeg, Manitoba
June 19, 2001

100-123 Bannatyne Ave., Winnipeg, Manitoba R3B 0R3
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FINANCIAL STATEMENTS

MARCH 31, 2001

BALANCE SHEET
(In Thousands)
AS AT MARCH 31, 2001

	2001	2000
ASSETS		
CURRENT		
Accounts receivable	$ 767	$ 699
Accounts receivable - Province of Manitoba, note 6	126	182
Prepaid expenses	43	38
	936	919
INVESTMENT PENSION	204	115
CAPITAL ASSETS, notes 2 and 3	121	117
OTHER ASSETS, notes 2 and 4	36	48
PENSION TRUST	-	48
	$ 1,297	$ 1,247
LIABILITIES		
CURRENT		
Working capital payable, note 5	$ 234	$ 227
Accounts payable and accrued liabilities	419	280
Current portion of long-term debt, note 9	1	-
Deferred revenue	2	2
	656	509
PENSION LIABILITY, note 6	-	163
SEVERANCE LIABILITY, note 7	75	99
LONG-TERM DEBT, note 9	27	-
	758	771
EQUITY		
CONTRIBUTED EQUITY, note 11	51	51
RETAINED EARNINGS	488	425
	539	476
	$ 1,297	$ 1,247

FINANCIAL STATEMENTS

MARCH 31, 2001

STATEMENT OF INCOME AND RETAINED EARNINGS
(In Thousands)
YEAR ENDED MARCH 31, 2001

	2001	2000
REVENUES		
Mail processing	$ 4,938	$ 4,674
Mail finishing	401	321
Inter department mail	679	769
Printing	25	-
Contract administrative fees	42	28
	6,085	5,792
EXPENSES		
Amortization	57	39
Bad debts	-	13
Communications	12	11
Courier	144	138
Employee benefits	81	111
Equipment rental and maintenance	38	52
Interest	34	42
Leases	67	18
Loss on disposal of capital assets	1	-
Network	27	36
Miscellaneous operating	52	23
Office	22	26
Occupancy	103	109
Postage	4,500	4,315
Professional fees	140	199
Salaries, note 8	744	722
	6,022	5,854
NET INCOME (LOSS)	63	(62)
RETAINED EARNINGS, beginning of year	425	487
RETAINED EARNINGS, end of year	$ 488	$ 425

FINANCIAL STATEMENTS

MARCH 31, 2001

STATEMENT OF CASH FLOWS
(In Thousands)
YEAR ENDED MARCH 31, 2001

	2001	2000
OPERATING ACTIVITIES		
Cash flows from operations		
Net income (loss)	$ 63	$ (62)
Add: non-cash charges		
Amortization	57	39
	120	(23)
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	(12)	276
Decrease (Increase) in prepaid expenses	(5)	89
Decrease in pension trust	48	43
Increase (Decrease) in accounts payable and accrued liabilities	139	(156)
Decrease in deferred revenue	-	(28)
Increase (Decrease) in pension liability	(163)	72
Increase (Decrease) in severance liability	(24)	5
	(17)	301
Cash flows from operations	103	278
FINANCING ACTIVITIES		
Increase in long-term debt	28	-
INVESTING ACTIVITIES		
Additions to capital assets	(49)	(43)
Additions to other assets	-	(60)
(Increase) decrease in long-term investments	115	(115)
	66	(218)
INCREASE IN CASH	197	60
BANK INDEBTEDNESS, beginning of year	(227)	(287)
BANK INDEBTEDNESS, end of year	$ (30)	$ (227)
REPRESENTED BY:		
Short-term investments	$ 204	$ -
Working capital payable	(234)	(227)
	$ (30)	$ (227)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001

1 NATURE OF ORGANIZATION

In 1956, Mail Management (Postal Services) was created as a branch of the Manitoba Provincial Government to provide centralized postal management.

Effective April 1, 1996, the Postal Services was renamed Mail Management Agency (MMA) and designated as a Special Operating Agency (SOA) pursuant to The Special Operating Agencies Financing Authority Act, Cap. s185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

MMA is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from MMA operations. It finances MMA through repayable loans and working capital advances. The financial framework enables the Agency to operate in a business-like manner according to the public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Government Services assigns responsibility to MMA to manage and account for MMA related assets and operations on behalf of the Financing Authority.

MMA continues to be part of Manitoba Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

MMA remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Financing Authority is economically dependent on the Province of Manitoba. Currently, the Financing Authority derives most of its revenue and all of its capital financing requirements from the Province.

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the MMA have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Capital Assets

Capital assets are recorded at cost and are amortized annually at the following rates and bases:

Production equipment	-	20% diminishing balance basis
Computer equipment	-	20% straight-line basis

(b) Other Assets

Other assets are recorded at cost and are amortized at the following rate on a straight-line basis:

Computer conversion	-	over 5 years

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001

3 CAPITAL ASSETS

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Production equipment	$ 264	$ 145	$ 119	$ 113
Computer equipment	4	2	2	4
	$ 268	$ 147	$ 121	$ 117

4 OTHER ASSETS

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Computer Conversion	$ 60	$ 24	$ 36	$ 48

5 WORKING CAPITAL PAYABLE

MMA has an authorized line of working capital advances of $1,500 of which $233 was used as at March 31, 2001.

6 PENSION LIABILITY

Employees of the MMA are eligible for pension benefits in accordance with the provisions of The Civil Service Superannuation Act. MMA has recorded an obligation for the pension benefits earned by its employees from the date of designation as an SOA. The methodology for calculating the liability has been determined in conjunction with the Province of Manitoba (Province), which accepts responsibility for pension liability for service prior, as well as any variance resulting from the calculation.

The MMA deposited an amount equal to the employer's share of the pension liability in a separate investment account.

MMA restated its pension liability as at March 31, 1999 to an indexed basis to be consistent with revised Provincial policy. An error in the original methodology also caused the previous calculation to be understated. The Province assumed responsibility for these liability changes. The resulting increase of $35 in pension obligation as at March 31, 1999 has been offset by recording a receivable entitled "Accounts Receivable - Province of Manitoba". There was no effect on pension benefit expense for the year ended March 31, 2000.

An actuarial valuation report of the Agency's pension liability to its employees from the date of designation as a SOA was recently completed. The report calculated the pension liability as at March 31, 2000 and provided a formula to update the liability on an annual basis. In accordance with the formula, MMA's actuarial liability has been calculated on an indexed basis to be $147 as at March 31, 2001 (2000 - $163).

As at March 31, 2001, the Province has assumed responsibility for administering the SOA's pension liabilities.

Accordingly, the pension liability net of the accounts receivable from the Province was reclassified as accounts payable. MMA will transfer funds equal to the net amount to the Province during the year ending March 31, 2002.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001

7 SEVERANCE LIABILITY

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The estimate of the liability was based on the method of calculation set by the Province

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance at April 1, 1998 of $89 was completely offset by a receivable from the Province. There are no fixed terms for payment.

An actuarial valuation report of the Agency's severance as at March 31, 2000 was recently completed. The liability as at March 31, 2000 was restated to $99 and the receivable from the Province was restated to $75 as a result of the actuarial valuation. There was no effect on the severance benefit expense for the year ended March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $75 as at March 31, 2001.

8 THE PUBLIC SECTOR COMPENSATION DISCLOSURE ACT

It is a requirement of *The Public Sector Compensation Disclosure Act* that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba.

The following employees received compensation in excess of $50:

Name	Position	2001 Amount	2000 Amount
Don Katz	Chief Operating Officer	$ 62	$ 56
Greg Bowers	Marketing/Systems	$ 50	$ -

9 LONG-TERM DEBT

	2001	2000
2.366% capital lease, Pitney Bowes, repayable in quarterly instalments of $1584 blended principal and interest, secured by a high speed mailing machine, due January 31, 2006	$ 28.0	$ -
Less current portion	1.0	-
	$ 27.0	$ -

Principal repayments for the next five years are as follows:

2002	$ 1
2003	6
2004	6
2005	6
2006	9

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001

10 COMMITMENT

The Agency has not entered into lease agreements with the Province of Manitoba for the five locations that it operates (200 Vaughan Street, Winnipeg; 405 Broadway, Winnipeg; 450 Broadway, Winnipeg; 340 - 9th Street, Brandon; and 25 Tupper Street, Portage la Prairie). Occupancy charges for the year ended March 31, 2001 are estimated at $103, whereas charges for the year ended March 31, 2000 were $109.

11 CONTRIBUTED EQUITY

SOAFA and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of fixed assets valued at $102 required for continuing operations of the Mail Management Agency as at March 31, 1996. The Agency is responsible to repay Special Operating Agencies Financing Authority the debt portion in the amount of $51 (being one-half of the value of the assets) and to record the balance of $51 (being one-half of the value of the assets) as Manitoba's equity in the Financing Authority as related to the Agency's operations. The debt portion has been repaid.